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RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Mar 25 DJIA 1978.95; PTI 2681; A-D Ratio -8.83
Mar 31 DJIA 1988.06; PTI 2682; A-D Ratio -9.02
Current Dow Yield: 3.52%; Dow P/E: 14.9
Dow 200-day mov aver: 2198; DowPow: 896

April 6, 1988 **LETTER 988**

THE PICTURE: What's the bear market all about? How about this for starters? The total US federal debt is now $2.46 trillion and rising, with net interest expense running to $139 billion a year. This amounts to interest payments of $2.67 billion per week (that's right -- per week!). In comparison, the entire federal debt in 1929 was $16 billion and actively being reduced.

If anyone took the 1987 bear market signal and subsequent crash seriously, you wouldn't know it from Wall Street's shenanigans. For months market action has centered around takeovers, mergers, rumors, court battles, leveraged buy-outs and a surge in the over-the-counter and secondary stocks. As far as the Dow Averages are concerned, action has been centered in the leveraged and speculative transportation stocks, while the blue-chip D-J Industrial Average has lagged badly and the conservative Utility Average has been in a downtrend ever since late-January.

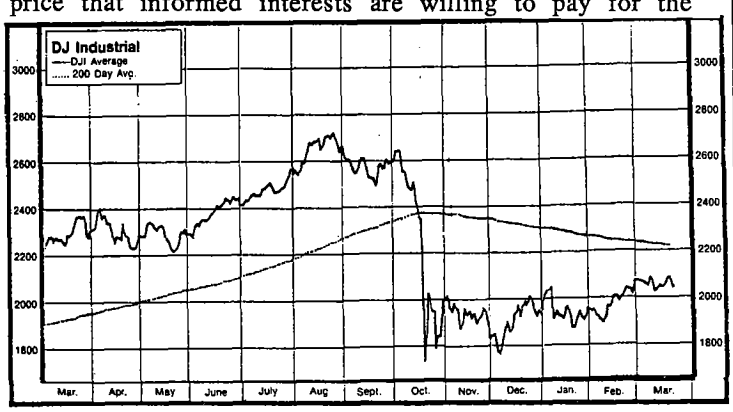
Actually, much the same thing has been happening in the bond market. The lower-grade bonds have been (in many cases) moving to new highs while the high-grade Treasuries and the safer shorter-term instruments have been lagging. In the bond market they call this "divergence" just as they do in the stock market.

The statistics are rather interesting. At its March high, the D-J Transportation Averages had recovered 55.2% of its bear market losses. At its comparable March high the Dow had recouped only 35.4% of its bear market losses. While the Transport recovery was about par for a post-crash recovery, the 35% recovery for the Dow was decidedly sub-standard. There's just no question about it -- the high-grade Dow Industrial stocks are weak.

As for the Utilities, their persistent weakness was particularly apparent when, on Friday , March 18, the D-J Utility Average recorded its lowest Friday closing since January 1986. Just why the Utilities are so weak is a mystery, but the important thing is that this Average tends to be a bellwether (could it be discounting higher interest rates?).

What does it all mean? Nobody can be sure, but I do know that primary bull movements are usually led by important investment money -- the kind of money that buys the blue-chip stocks rather than the secondaries and cats-and-dogs. Furthermore, I grew up believing that divergence in the market averages is usually a sign of distribution -- distribution by informed interests.

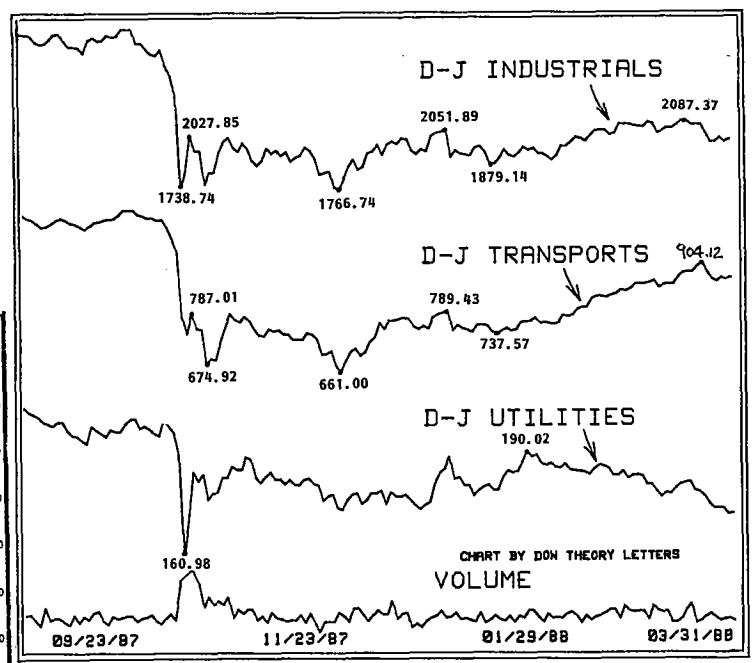
The 200-day moving average of the Dow represents the average price that informed interests are willing to pay for the investment-grade D-J Industrials over the past eight months. During a primary bear market it is normal for the Dow to hold below its 200-day MA for long periods of time. During particularly violent (counter-trend) bear market rallies, the Dow will rise temporarily above its 200-day MA, only to fall back again as the bear forces take hold.

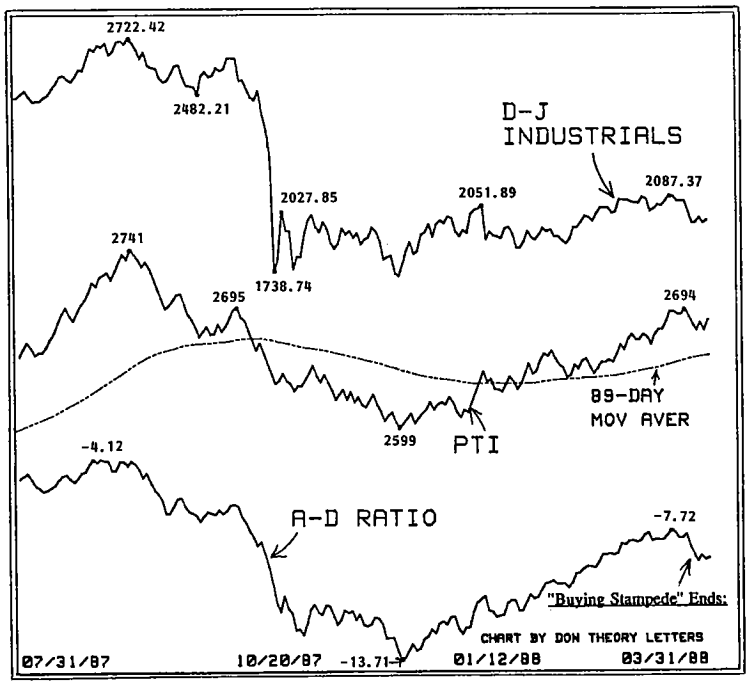


As you can see in the accompanying chart, the Dow has held below its 200-day MA ever since the October crash. Meanwhile, the MA is declining at the rate of about 2 points a day. As the 200-day MA drops closer to the Dow, it will act like a giant roof -- exerting increasing downward pressure on the Industrial Average.

"Buying Stampede" Ends: The advance-decline ratio recorded its bear market low on December 4 at minus 13.71. From that low the A-D ratio advanced steadily to a peak of minus 7.72 on March 17. This represented a rise of 5.99 points on the A-D without so much as a one-point correction. I therefore labeled the rise as a "buying stampede." From its March 17 high the A-D ratio turned down, and on March 25 the A-D figure was minus 8.83. This was a drop of more than one point from the peak, and as such it ends the buying stampede. The normal expectation from here would be a period of irregularity.

Bear Market Characteristics: One of the hardest things to get over to people (sometimes I think it's impossible) is that **once a primary bear market starts, it is fated to go to conclusion.** Bear markets begin in areas of extreme overvaluation for stocks. Bear markets end (see chart in last Letter, page 4) in periods of severe undervaluation (i.e., "great values"). The long and winding path from overvaluation and thin yields to undervaluation and fat yields -- that path is what the bear market is all about. The path may take





a few years to as long as a decade, but one way or another stocks must and will make the trip to the downside.

That trip (a bear market) may be interrupted by violent upside corrections, government intervention, temporary rosy business news, Fed manipulations, presidential promises, optimistic predictions from leading economists, you name it. But all these items will simply lengthen the inevitable trip from extreme overvaluation to extreme undervaluation, from "rumor-and-froth time" to "gloom-and-doom time."

I find that this inevitable progression from bull to bear market is the single hardest concept to get over to investors, traders, and even to other professionals. "But Mr. Russell," I am asked, "what would make you change your mind? What would you have to see to make you say that a new bull market has started?" And my answer is that I would have to see new highs all around on the various averages and indices and on the advance-decline ratio before I would concede that somehow, miraculously, a new bull market had started.

That's a lovely thought, but it's not going to happen. For the foreseeable future, sad to say, Wall Street will be in the grip of the bear. And since disbelief in the bear is so prevalent and so strong today, I'd say that this bear market is going to be around for quite some time.

Question: Russell, why didn't you turn bullish when your PTI broke above its 89-day moving average?

Answer: During a bear market I don't treat any of my indicators the way I would if the bull was in command. I've written often that in the investment business, "if you don't lose money -- you'll almost surely make money." One of the best ways of losing money is to play the breakouts in a bear market. We've already seen three Dow breakouts (i.e., the Dow rallying above a preceding peak) since Black Monday, and each one has proved to be a dud. As this is written, the Dow has retreated below all three breakout levels.

Question: With your conservative attitutde, what will you write about if this proves to be a long, tedious bear market, say a bear market of three or five years?

Answer: Writing about the markets has never been a problem for me (something fascinating is always happening). Being right about the markets is the problem. So don't worry, I'll find plenty to write about. Right now I have to work to reduce what I want to say to only six pages.

Question: Russell, you've been talking about this bear market taking good stocks back to "undervaluation," at which point the Dow will yield 6% or better. But suppose blue-chip stocks never go back to those kinds of juicy yields?

Answer: Worry not, they will. There never has been a bear market that didn't produce great values before it was over. Investors' sentiments run from euphoric to despondent as sure as night follows day. That's what makes bull and bear market cycles. And I doubt if the cycles of human nature which go back thousands of years to Biblical times (remember Joseph's "seven fat years and seven lean years") will end here in 1988.

Question: What do you make of all the odd-lot shorting and the consistently high short interest on the NYSE?

Answer: If this were a bull market I'd say that the large short interest was very bullish. But today the primary trend is bearish. Therefore, the shorts are aligned correctly with the bear trend. The large short interest today is no more bullish than a large stockholder position during a bull market is bearish. Both groups are correctly aligned with the major trend of the market.

Question: Russell, how do you think the budget and trade balances will ultimately be settled?

Answer: My suspicion is that the trade balance may improve considerably but that the federal budget situation is a continuing disaster.

Our government reacts to crises, it doesn't plan ahead or deal intelligently with coming problems. Therefore, I think it will take a major crisis before Washington bites the bullet on the budget deficit. The solution to that problem entails pain and deprivation. Everything our government has done over the last 40 years has been directed at avoiding both. In fact, that's what this bear market is all about -- it's the result of years of avoiding pain.

If the trade balance has been solved, sadly it has been "solved" at the expense of the dollar. To the extent that Americans can now buy about half as much in world markets as we could three years ago, we are that much poorer.

Question: Why does this market suddenly drop 43 points as it did on March 24? There were no non-confirmations or definite warnings -- just a sudden "falling out of bed."

Answer: Bear markets don't work the way bull markets do. In a bear market there doesn't have to be any extended periods of distribution prior to a sudden smash in the market. The reason is that in a bear market the good stocks have already been distributed by informed investors (distributed near the highs). So what happens is that a rally takes place, the rally takes the market to the exhaustion point -- and then suddenly the bear takes hold. These sudden drops tend to occur when least expected. So far, it is the pattern in this bear market for the drops to come directly following upside confirmations. This has the effect of locking in investors and recent buyers with losses. Of course, that's exactly what the bear wants.

I have warned repeatedly that you have to be very careful with your "regular" indicators and technical gauges during a bear market. When the primary trend is down, a good many of them (particularly the so-called oversold indicators) are just not going to work. In a bull market the standard indicators fluctuate from neutral to overbought back to neutral. In a bear market these same indicators will fluctuate from neutral to oversold back to neutral.

Question: Which Dow stocks have acted best in recent months?

Answer: I grade all Dow stocks (1) for relative strength and (2) for their position in respect to their own 30-week moving averages. The following Dow Stocks are above their MA and also showing

superior relative strength: Aluminum Co. of Amer., Bethlehem Steel, Chevron, Exxon, Goodyear, Int. Paper, MMM, Philip Morris, Texaco, Woolworth.

Question: Why don't you recommend buying puts or selling short in the bear market?

Anwer: Such recommendations make for excitement, but I have found over the years that 90% of my subscribers tend to lose money on the short side. Shorting (or buying puts) is a question of extremely accurate timing, and really accurate timing is hard, very hard. Actually, if you are on the sidelines during a bear market you are gaining through time in that you are able to buy an increasing amount of a diminishing value -- the market.

In a bear market one of my favorite aphorisms is particularly apt -- if you don't lose money, you're making money.

Question: Fed chief Alan Greenspan is rumored to be almost paranoid on the subject of inflation. With the CRB Futures Index pushing up to a recent 233, do you think the Fed is likely to increase rates?

Answer: The Fed continues to walk a tightrope. The dollar has shown renewed weakness -- which is a case for higher rates. But the banking mess is so bad that the Fed is opting for liquidity and lower rates. One-third of Texas' 281 S&Ls are now insolvent, and two weeks ago First Republic Corp. of Dallas (the largest bank holding company in Texas) asked for emergency financing to halt a run on the bank by its frightened depositors. In the face of these kinds of problems, it's hard to raise rates.

Question: Russell, it's been seven months since the August top and the beginning of the bear market. Do you have some overall view about what's happening and what lies ahead?

Answer: Here's what I think is happening in terms of the big picture. I think the bull market ended for Utilities in January 1987. I think the bull market ended for the majority of stocks in March 1987 when the A-D ratio topped out. I think history will record August '87 as the start of the primary bear market, since it was in August '87 that the D-J Industrials and Transports topped out.

I think that back in August the market said, "The best has been seen. There will be ups and downs, rallies and declines, good news and bad, but no matter how you put it or view it or wish it, the best has been seen."

Once the market discounts the best that can be seen ahead, the bull dies and a bear is born. When the bear is born, you can expect the market to start discounting (in its own way and in its own good time) the worst that can be seen ahead. The primary trend is then down, but that's a very broad, imprecise "prediction." How the market (and the economy) go down, how long it takes to hit bottom -- neither the Dow Theory nor any other theory can possibly tell us.

Nevertheless, the Dow Theory has told us a good deal. The Dow Theory is telling us that the tide has turned and that the stock market will be subject to a series of advances and declines -- each advance to end below the preceding advance and each major decline to break below the preceding decline lows. This process will continue until the Averages fully discount the worst that can be seen ahead. How bad will it get? If history means anything, it will get bad to the point where good, dividend-paying blue-chip stocks will be yielding around 6% or more. Assuming no dividend cuts in the Dow (and, of course, there will be cuts), such action should take the Dow back to roughly the 1100-1200 area, or even lower before the bear market breathes its last.

INVESTMENT POSITION: The bear is still king of the box. I get letters and calls from people who say, "Russell, I own GM at a price of 14 and GE at 9. Do you think I should sell?" And, of course, I can't answer that. Holding a stock bought years ago through a bear market is a personal choice and beyond the scope of my work. If it's a vicious bear market and your stocks go back to or near the price you paid 25 years ago, obviously, you "should have" sold. If the bear market only lops 25% off the value of your shares, well, any idiot can tell you that you should have held on.

Unfortuntely, no system on earth can tell you what lies ahead once a primary bear signal is given. That being the case, I have a policy of holding stocks in bull markets and being out of stocks during bear markets. If the bear market is short and shallow, I think of the expense of exiting (commissions and taxes) as the cost of insurance against a potential disaster. If the bear market is a monster such as 1973-74, I thank my lucky stars that I'm on the sidelines and bask in glory as I tell everyone what a genius I was.

There's no perfect answer in a bear market, so I'll stick to my time-proven procedure. Right now I'm in bonds, gold and money market funds, and I'm going to be very patient. I know that the bear would love to lure me back into the market. The sneakier and more deceptive the bear is, the more I'll resist his embraces.

DOWPOW: Often an entity is more than the sum of its parts. For instance, if you mix flour and water you don't simply get a flour-water mix, you get something new called dough, and this can be turned into various kinds of bread.

I've long wanted a new creature to measure the market action, something that would combine the potential volatility of the D-J Industrial Average with the tempering but all-encompassing properties of the daily advances and declines. I experimented with this idea for many months and finally came up (with subscriber John Carder's help) with DowPow.

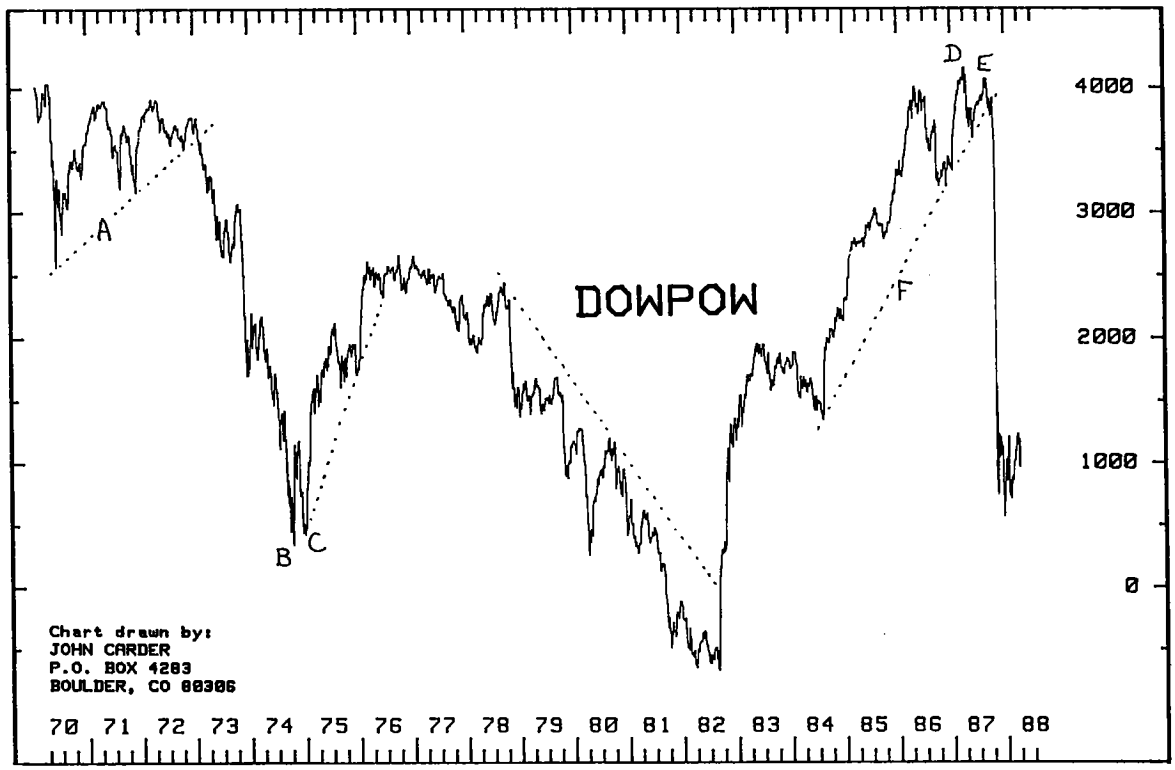
For the benefit of newer subscribers, DowPow is my proprietary index of the D-J Industrial Average adjusted for the action of the advance-decline ratio. It works like this: the bigger the Dow rise accompanied by big upside breath, the bigger the rise in DowPow. But a large rise in the Dow accompanied by negligible upside breadth will not do much for DowPow, nor will a big upside breadth day with an accompanying minor rise in the Dow. The same pertains to DowPow on the downside. In other words, DowPow moves big when the Dow and breadth both move big together -- on either the upside or the downside.

The accompanying (page 4) chart was run off by computer expert John Carder (P.O. Box 4283, Boulder CO 80306). The chart takes DowPow back eighteen years to 1970. To me it's a fascinating chart, and it explains some things that I have never really seen explained before (such as the frustrating performance of the market for the years 1976 through 1982).

Next, let's examine some of the more significant actions of DowPow during the period covered on this long-term chart. First we see that DowPow hit a high in 1970. Next, it recorded double tops during 1971 and early-1972. A still lower top was recorded in early-1973. The series of lower tops suggested obvious distribution. When the rising trendline ("A" on chart) was violated, this proved to be the signal for the devastating 1973-74 bear market collapse.

DowPow recorded its bear market low in October of 1974 ("B" on chart) along with the Dow. In December the Dow plunged to a new low, but here DowPow refused to confirm. This major non-confirmation marked the bottom of the 1973-74 bear market.

A new bull market was born in December 1974. The market surged higher until mid-1976, at which time market action turned ragged. DowPow, heavily influenced by the sagging breadth, headed lower. Although the Dow fluctuated in a trading range during the period of mid-1976 to 1982, DowPow went into an extended bear market of its own. During 1981 (most investors don't realize this) the A-D ratio on the NYSE actually broke below its 1974 bear



market low. DowPow, spurred by both weak breadth and a weak Dow, accompanied the Dow as it broke through its 1974 bottom.

Toward the end of 1982 DowPow plunged to a final low, a low (surprisingly) far below its 1974 low. Here again, DowPow may have been telling the real story, since at the 1982 low the Dow was selling at 15 times its dividends, a multiple which rendered the Dow a greater bargain than it was at the 1974 lows, at which point the Dow was selling at 17 times its dividends.

The 1976 to 1982 decline in DowPow indicated (1) that this was a much more difficult and costly period for investors than is generally realized, (2) that the majority of NYSE stocks did poorly during 1976-82, and (3) that at the 1982 bottom stocks were probably greater bargains than they were at the 1974 bottom.

From the crushing DowPow lows of 1982, we witnessed a truly explosive rise in DowPow, a rise that developed in two distinct phases. The first carried from mid-1982 to mid-1983. A correction then stretched to July of 1984. From there DowPow surged to an early 1986 high. After a corrective plunge, DowPow advanced to its final bull market peak of 4150 in March 1987 ("D" on chart). Another sharp correction occurred, and then DowPow rallied to a lower peak ("E") of 3951 on October 6. The breaking of trendline F coincided with the 1987 crash.

Some conclusions: (1) DowPow provides us with a different and often extremely valuable view of the market. (2) When the action of DowPow varies or diverges from the the action of the Dow or of the majority of widely-followed averages, it is well worth taking note of that divergence. (3) Trendlines and trendline reversals in DowPow tend to be very significant. (4) DowPow seems to have a life of its own, a life actually apart from the Dow, the A-D ratio, or any of the other major averages and indices. (5) Initial surges in DowPow seem to have primary significance, as in the surges off the 1974 and 1982 bottoms and the plunge down from the 1987 highs.

What of DowPow's current action? One thing is clear -- since the October 1987 crash DowPow has refused to move out of its tight range, a range bordered by its October 21 high of 1596 and its December 4 low of 519. And I ask myself, "What is the meaning of this stubborn refusal by DowPow to break out of its five-month range?" Here is the only answer I come up with. On a cold reading of the chart, DowPow is telling us that the stock market is out of gear, out of harmony. DowPow is reflecting the dis-harmony by refusing to rally back even to its October 21 closing level.

I have to view this action as bearish. Following the crash, I would have expected DowPow to advance strongly. Post-crash action is normally powerful on the upside. That certainly has not been the case with DowPow. If DowPow will not go up, if DowPow will not surge following the enormous downside compression created by the crash, then probabilities suggest that the path of least resistance is down.

Because DowPow has so dramatically and insistently resisted the upside, the inference is that there is tremendous pent-up energy in DowPow in favor of the downside. If and when DowPow breaks below its December 4 low I would expect powerful downside action -- possibly even another crash (the latter is something that the "authorities" now claim can never happen again). Judging from the action of DowPow, I wouldn't bet on it.

ANNOUNCEMENT: The *New York Times* recently published a rather depressing article which headlined, "Troubled Times for Investment Newsletters -- Advertising and postal costs are up, and the competition is everywhere and then came Black Monday." A dozen worried subscribers sent me copies of the article.

But not to worry. Our business is up 21% since the crash, and over the last year our renewal rate has been 84% (which is very high). So Dow Theory Letters will be around for a while longer -- probably a good while longer.

We also get a lot of new subscribers each month and for serious market students I want to suggest two volumes that I have been publishing since 1974. The first is The Dow Jones Averages. This unique chart book provides a daily history of the Dow from its inception in 1885 to the present. The charts (11" x 17" and one for each year) include daily closes for the D-J Industrials, Transports, Utilities, D-J Bonds, and daily volume. Significant high and low points are labeled -- also important historical and economic dates such as the Panic of 1907, the Roosevelt election and the Eisenhower heart attack, etc. Each album includes a large loose-leaf three-ringed binder so that new pages can be added (we offer the past year's page each January).

These albums have proved invaluable for brokers, traders, investors, and serious market students on five continents. Price is $135 per album, we pay the postage, unless it's foreign air-mail (make checks out to Richard Russell).

I also offer the same kind of album covering the advance-decline ratio and the Dow (daily) from early-1931 to the present, The Advance-Decline Ratio. Price for this album is $95.

NOTES & QUOTES: Market comparisons often tell the story of what's ahead for business. Since the October crash European markets have been doing poorly while Asiatic markets have been doing well, as has Canada. Scoreboard since the crash: Dutch market down 3.7%, W. German market down 18.4%, French market down 13.5%, London down 3.0%, Canada up 9.8%, Hong Kong up 10.0%, Tokyo up 16.9%, but Singapore down 4.3% and Australia down 10.9%.

* *

All is not well on Wall Street. Of 395 reporting firms, 45% or 178 reported profits of $304 million, while the other 217 firms reported total losses of $12.99 billion (that's right, billion). For 1987 all the firms reported after-tax earnings dropped 97% to $84 million from 1986's $2.9 billion. Put it this way -- 1987 was not a good year for the Street.

* *

Donald Trump, the jet-set millionaire (he claims he's worth $3-4 billion, *Forbes* claims $850 million), has purchased New York's 800-room Plaza Hotel for $410 million (Westin and Sonnabend bought the Plaza in 1975 for $25 million). Personally, I think Donnie overpaid, but he says no, and he states that he will uplift the Plaza to five-star status. Great! When I was a kid the Plaza was IT, the place to go, the place to be seen -- it was beauty, luxury, the epitome of true class. Just sitting in the plush lobby used to give me a teen-age thrill. Then came the War, the 1960s and '70s, and the Plaza went down hill. It became almost shoddy, a shadow of its glorious past. More recently, the Plaza has been redone and today it looks almost pretty again. If Trump can pay $410 million for the Plaza and still squeeze a profit out of it, my hat's off to him. Anyway, I always loved the Plaza, so good luck Donald -- I think you'll need it.

* *

Since 1985 the cost of sending a first-class letter in the US has risen from 20 to 25 cents, an unconscionable increase of 25%. For years I have advocated making the postal service a private corporation, and I continue to push for "privatization" of the PO monster. The US Postal Service is a dinosaur, a relic of the past, a horse-and-buggy creation. An unbelievable 85% of the PO's expenses go for salaries and pensions. The PO is a voting bloc, a political force. And I wonder how long we will have to put up with this inept, inefficient extravagance.

* *

Former President Richard Nixon may have been disgraced, but he is still one of the shrewdest political observers around. Recently Nixon wrote that "While (Bush) is decent, intelligent and competent, he is not an exciting campaigner." Nixon thinks that Bush has wrapped up the Republican nomination, but he states that Bush better continue to mix it up. Nixon warns "if Bush pursues a rose garden strategy between now and August," he will end up losing the big fight. "Party unity is fine," states Nixon, "but it doesn't win elections."

* *

The Reagan adminstration's planned decline in the dollar was supposed to make the US "competitive again." But the negative side of the master-plan is that the cheap dollar has put America up for sale. Billions in real estate and corporate entities are being bought up by foreigners and hundreds of millions of dollars of profits will now be shipped overseas. In the end, I feel that the cheap dollar policy will backfire. America will lose far more than it gained, and if (in the worst case) Europe and Japan go into recession, foreign competition from abroad could be as tough or tougher than before.

Despite the dollar's huge drop against the yen and the European currencies, it has not dropped much against our biggest trading partner, Canada -- nor that much against the "Four Tigers," S. Korea, Singapore, Hong Kong, and Taiwan.

* *

What's bothering the utility stocks? It could be that the utilities are simply discounting a recession in late '88 or even in '89 with an accompanying decline in power consumption. But two other considerations may be present. One is that there is a trend toward independent power production. Federal regulators have been relaxing the rules on independent power production and just last December Bechtel and Pacific Gas & Elctric announced plans to form a joint venture to sell cogeneration and small power plants nationwide.

A second consideration is the rise of solar energy and the photovoltaic industry. Many leaders in this field believe that it will only be a matter of time before solar energy will be as cheap as energy from oil or coal. If or when this happens, a huge new industry will spring up. And factories and homes may well generate their own power, thereby cutting down or even eliminating power needs from the public utilities.

* *

The Southwest is experiencing massive real estate problems, problems that are beginning to sound like the 1930s. The savings & loan industry is in tatters, and the estimates to bail out the industry run to above $15 billion. Meanwhile, foreclosures to Texas savings institutions have soared from 1986's $6.7 billion to near $12.8 billion in 1987. On top of this, the vacancy rate for commercial real estate is 31.8% in Houston, 29.1% in Dallas. Finally, at the end of September the total amount of delinquent mortgages (payments overdue) reached the staggering sum of $18 billion. On March 24 the *NY Times* quoted Wm. Ferguson, a leading consultant, as follows: "We are sitting on an economic environment that may be more severe in real estate and finance sectors than existed during the Great Depression."

* *

If we're ever going to reduce the federal budget, the US may have to adopt a reform I have long advocated -- six-year terms for Congressmen -- and then out. I consider today's professional, life-term Congressman to be a national disaster. Fact: 90% of the incumbents are now routinely elected. These professional office-holders vote themselves free direct mail, massive staffs, local offices, fat travel expenses. Further, they control many of the PACs (this year House incumbents received contributions over challengers on a 100 to 1 basis). As Pat Buchanan puts it, "While the country may move conservative, the Congress, immune to national opinion, goes on borrowing and spending America's wealth, transferring it to countless beneficiaries to maintain itself permanently in power. The only thing Congress has to fear is being courageous and, hence, controversial."

* *

When I was kid I used to go to the St. Nicholas Arena in NYC and for 50 cents I could see pro wrestling with famous characters like Jim Londos and "Strangler" Lewis. Today, pro wrestling has turned into a $300 million business. Wrestling shows (and they are "shows") now account for 4 out of the 10 top programs on cable TV. But who can resist Hulk Hogan and Andre the Giant. These guys give great performances. It's not sport, but it's good guys vs. bad guys. And these guys are BIG.

* *

The word today is that "the financial tails are wagging the dog." Translation: The bond market (interest rates) is moving the stock market, and the futures markets today run the bond market. On Black monday the NYSE traded $21 billion in stocks. On the same day the Chicago Merc traded over $50 billion in Treasury bond futures. The Chicago Board of Trade has been around since the 1840s and has until recently traded agricultural futures. Today, three-quarters of its trades are in financial futures.

* *

Quote of the Week: From Thomas Dittmer, CEO of giant REFCO trading company -- "The day of the speculator is gone. When Uncle Sam takes 32% of your winnings and gives you back none of your losses, you've got to go broke some day. You can be right six years in a row and wrong one year and you're broke. The pension funds have to be the only players left in the world. Because they don't pay taxes, they have to wind up with all the money." In-and-out traders might read this over about a dozen times.

* *

From an interview with Prof. Jeffrey Sachs, Harvard specialist in international finance: "The notion that hanging tough and not writing down the debt gains something for the money center banks is silly, in my mind. These banks have watched the value of their debt in the secondary market fall sharply every year,and they have been punished by the stock market for hanging on to lousy paper. I believe that it is in the interest of the money center banks -- as well as the regional banks -- to get out now and save 50 cents on the dollar, rather than try to cling to a failing strategy. The fact is that as long as they hold debt at such unbelievable levels and as long as they give no relief to Latin America, the crisis will spiral.

"Right now Argentina has 300% inflation, Mexico has 175% inflation, Brazil's inflation is back over 350%, and Peru is likely to have hyperinflation within the next 18 months. In other words, the crisis is not getting better. The value of the claims is falling and falling, and the money center banks that think they are somehow saving themselves by maintaining this tough approach are, in fact, just shooting themselves in the foot."

GOLD: The old adage states that "the stock market can do anything." And after the 1987 market action, who would deny it? But can the government do anything? It did in 1933 when it called in the citizens' gold. A question I get over and over again from subscribers is "Could the government take away my gold coins again?"

I imagine not 1 out of 500 subscribers has ever seen a copy of the actual Executive Order of April 5, 1933, an order demanding that all gold be delivered back to the government. To dramatize this event. I'm including a copy of that order on page 6.

Could it happen again? Of course it could, but I sincerely doubt that it will. First, gold holdings for US citizens were legalized in the early 1970s. Then in the mid-'80s the US government actually began minting gold coins again -- while encouraging its citizens to buy the coins. Although our schizophrenic government has never boosted the official price of gold above the current $44 (the price at which our Fort Knox hoard is valued), the government has pretty much reversed its position on gold. No longer do Treasury Secretaries denounce gold as a "barbaric relic," and no longer do ignorant Congressmen rant and rave against the yellow metal.

No, I do not think we will ever see another Executive Order like the one shown on this page. After minting and distributing gold coins, I don't think the government would or even could do an about-face. Furthermore, inflation fears are higher now than they were in 1933, and people are far less law-abiding now than they were in 1933. Therefore, even if the government did try to "call in" the gold, I don't think US citizens would comply. So subscribers, hang on to your gold coins; I think they are safe from the itchy palms of the US government.

Current Gold: In the last Letter I showed a daily chart of gold, and a bottoming formation could be clearly seen. On my point & figure chart, the recent gold decline took the spot metal down to but not below its major rising trendline at 424. Since then gold has rallied, hitting a spot 458 on March 31. Consider gold to be in a bull trend as long as the spot price holds above 420.

PLEASE POST IN A CONSPICUOUS PLACE

UNDER EXECUTIVE ORDER OF THE PRESIDENT

Issued April 5, 1933

all persons are required to deliver

ON OR BEFORE MAY 1, 1933

all GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES now owned by them to a Federal Reserve Bank, branch or agency, or to any member bank of the Federal Reserve System.

Executive Order

FORBIDDING THE HOARDING OF GOLD COIN, GOLD BULLION AND GOLD CERTIFICATES.

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", in which emergency Act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and pursuant to said section do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations and hereby prescribe the following regulations for carrying out the purposes of this order:

Section 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade. The term "person" means any individual, partnership, association or corporation.

Section 2. All persons are hereby required to deliver on or before May 1, 1933, to a Federal reserve bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates now owned by them or coming into their ownership on or before April 28, 1933, except the following:

(a) Such amount of gold as may be required for legitimate and customary use in industry, profession or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

(b) Gold coin and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements.

(d) Gold coin and bullion licensed for other proper transactions (not involving hoarding) including gold coin and bullion imported for reexport or held pending action on applications for export licenses.

Section 3. Until otherwise ordered any person becoming the owner of any gold coin, gold bullion, or gold certificates after April 28, 1933, shall, within three days after receipt thereof, deliver the same in the manner prescribed in Section 2; unless such gold coin, gold bullion or gold certificates are held for any of the purposes specified in paragraphs (a), (b) or (c) of Section 2; or unless such gold coin or gold bullion is held for purposes specified in paragraph (d) of Section 2 and the person holding it is, with respect to such gold coin or bullion, a licensee or applicant for license pending action thereon.

Section 4. Upon receipt of gold coin, gold bullion or gold certificates delivered to it in accordance with Sections 2 or 3, the Federal reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

Section 5. Member banks shall deliver all gold coin, gold bullion and gold certificates owned or received by them (other than as exempted under the provisions of Section 2) to the Federal reserve banks of their respective districts and receive credit or payment therefor.

Section 6. The Secretary of the Treasury, out of the sum made available to the President by Section 501 of the Act of March 9, 1933, will in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion or gold certificates delivered to a member bank or Federal reserve bank in accordance with Sections 2, 3, or 5 hereof, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. Voucher forms for this purpose may be procured from Federal reserve banks.

Section 7. In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal reserve bank. Each application must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

Section 8. The Secretary of the Treasury is hereby authorized and empowered to issue such further regulations as he may deem necessary to carry out the purposes of this order and to issue licenses thereunder, through such officers or agencies as he may designate, including licenses permitting the Federal reserve banks and member banks of the Federal Reserve System, in return for an equivalent amount of other coin, currency or credit, to deliver, earmark or hold in trust gold coin and bullion to or for persons showing the need for the same for any of the purposes specified in paragraphs (a), (c) and (d) of Section 2 of these regulations.

Section 9. Whoever willfully violates any provision of this Executive Order or of these regulations or of any rule, regulation or license issued thereunder may be fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

This order and these regulations may be modified or revoked at any time.

THE WHITE HOUSE
April 5, 1933.

FRANKLIN D ROOSEVELT

For Further Information Consult Your Local Bank

GOLD CERTIFICATES may be identified by the words "GOLD CERTIFICATE" appearing thereon. The serial number and the Treasury seal on the face of a GOLD CERTIFICATE are printed in YELLOW. Be careful not to confuse GOLD CERTIFICATES with other issues which are redeemable in gold but which are not GOLD CERTIFICATES. Federal Reserve Notes and United States Notes are "redeemable in gold" but are not "GOLD CERTIFICATES" and are not required to be surrendered

Special attention is directed to the exceptions allowed under Section 2 of the Executive Order

CRIMINAL PENALTIES FOR VIOLATION OF EXECUTIVE ORDER
$10,000 fine or 10 years imprisonment, or both, as provided in Section 9 of the order

Secretary of the Treasury.

LATE NOTES: The bellwether Utility Average continues its persistent decline. There's no way that I can construe this as bullish for the market. As this is written, the Utility Average is at its lowest level since the closing crash low of 160.98. The D-J Industrial and Utility Averages have decisively broken their rising trendlines on both ratio and arithmetic charts. The Transports are close to violating their own rising trendline.

The rally from the crash low is about kaput. The bear is slowly emerging from his lair. There's little in the economic news to account for the bearish market action -- which in itself is ominous.

The burning question on the lips of Wall Streeters -- "Will the Japanese continue to buy US paper?" It's pathetic that we have to ask that question. But when you consistently spend more than you take in, you surrender your economic liberty. "America the Beautiful" is now "America the Debtor." The founding fathers must be turning in their graves.